

19. OFF-BUDGET FEDERAL ENTITIES AND NON-BUDGETARY ACTIVITIES

The budget does not include some programs of the Federal Government that result in the same kind of spending as budget outlays. Despite their exclusion from the budget, these programs channel economic resources toward particular uses in the same way as budget spending. They are discussed in the following section on off-budget Federal entities.

The budget also does not include some activities that are related to the Federal Government but that are non-budgetary by their inherent nature. In some cases this is because they are not activities of the Government itself, and in other cases this is because the transactions are not costs to the Government. Nevertheless, many of these activities are discussed in the budget documents, and in some cases the amounts involved are presented in conjunction with budget data. They are discussed in the section of this chapter on non-budgetary activities.

Off-Budget Federal Entities

The Federal Government has used the unified budget concept as the foundation for its budgetary analysis and presentation since the 1969 budget. This concept was developed by the President's Commission on Budget Concepts in 1967. It calls for the budget to include all the Federal Government's programs and all the fiscal transactions of these programs with the public.

Every year since 1971, however, at least one Federal entity has been off-budget. Off-budget Federal entities are federally owned and controlled, but their transactions are excluded from the budget totals by law. When a Federal entity is off-budget, its receipts, outlays, and surplus or deficit are not included in budget receipts, budget outlays, or the budget surplus or deficit; and its budget authority is not included in the totals of budget authority for the budget. The Budget Enforcement Act of 1990 excludes these entities from general enforcement provisions (except for the administrative expenses of Social Security), although it has special enforcement provisions for Social Security.

The off-budget Federal entities conduct programs of the same type as the on-budget entities (i.e., Federal entities included in the budget totals). Most of the tables in the budget documents include the on-budget and off-budget amounts both separately and in combination, or add them together, in order to arrive at the unified budget totals that show Federal outlays and receipts comprehensively.

The off-budget Federal entities currently consist of the two Social Security trust funds, old-age and survivors insurance and disability insurance, and the Postal Service fund. Social Security was removed from the budget in 1985 and the Postal Service fund in 1989. A number of other entities were off-budget at different

times before 1986 but were moved onto the budget by law as of 1986 or earlier.

The following table divides the total Federal Government receipts, outlays, and surplus or deficit between the on-budget and off-budget amounts. The column for the on-budget surplus is labeled "on-budget/contingencies," since for future years the on-budget estimates include a reserve for contingencies as well as estimated receipts and outlays. If future decisions are made to use the contingency reserve for higher spending or lower tax receipts, the future on-budget surplus would be correspondingly reduced.

Within this table Social Security is classified as off-budget for all years, in order to provide consistent comparison over time. The much smaller Postal Service transactions are classified as off-budget starting in 1989. Entities that were off-budget at one time but are now on-budget are classified as on-budget for all years.

In 2002, the off-budget receipts are an estimated 24 percent of total receipts, and the off-budget outlays are an estimated 18 percent of total outlays. The off-budget surplus consists almost entirely of Social Security. Social Security had a deficit in the latter 1970s and early 1980s, but since the middle 1980s it has had a large and growing surplus. This surplus is expected to continue to grow by very large amounts throughout the projection period. The on-budget accounts had deficits for many years until 1999, when they were essentially balanced, and 2000, when they had an \$87 billion surplus. The on-budget accounts (including the contingency reserve) are estimated to have significant surpluses throughout the projection period, though much less than Social Security. The off-budget surplus of \$172 billion in 2002 accounts for three-quarters of the unified budget surplus of \$231 billion, and throughout the projection period the off-budget surplus remains around three-quarters to two-thirds of the unified budget surplus (including the contingency reserve).

Non-Budgetary Activities

Federal credit: budgetary and non-budgetary transactions.—The Federal Credit Reform Act of 1990 refined budget concepts by distinguishing between the costs of credit programs, which are budgetary in nature, and the other transactions of credit programs, which are not. For 1992 and subsequent years, the costs of direct loans and loan guarantees have been calculated as the present value of estimated cash outflows from the Government less the present value of estimated cash inflows to the Government. These costs are equivalent to the outlays of other Federal programs and are included in the budget as outlays of credit program

TABLE 19-1. COMPARISON OF TOTAL, ON-BUDGET, AND OFF-BUDGET TRANSACTIONS ¹
(In billions of dollars)

| Fiscal Year | Receipts | | | Outlays | | | Surplus or deficit (-) | | |
|---------------------|----------|-----------|------------|---------|-----------|------------|------------------------|--|------------|
| | Total | On-budget | Off-budget | Total | On-budget | Off-budget | Total | On-budget/ Contingencies ² | Off-budget |
| 1975 | 279.1 | 216.6 | 62.5 | 332.3 | 271.9 | 60.4 | -53.2 | -55.3 | 2.0 |
| 1976 | 298.1 | 231.7 | 66.4 | 371.8 | 302.2 | 69.6 | -73.7 | -70.5 | -3.2 |
| TQ | 81.2 | 63.2 | 18.0 | 96.0 | 76.6 | 19.4 | -14.7 | -13.3 | -1.4 |
| 1977 | 355.6 | 278.7 | 76.8 | 409.2 | 328.5 | 80.7 | -53.7 | -49.8 | -3.9 |
| 1978 | 399.6 | 314.2 | 85.4 | 458.7 | 369.1 | 89.7 | -59.2 | -54.9 | -4.3 |
| 1979 | 463.3 | 365.3 | 98.0 | 504.0 | 404.1 | 100.0 | -40.7 | -38.7 | -2.0 |
| 1980 | 517.1 | 403.9 | 113.2 | 590.9 | 476.6 | 114.3 | -73.8 | -72.7 | -1.1 |
| 1981 | 599.3 | 469.1 | 130.2 | 678.2 | 543.1 | 135.2 | -79.0 | -74.0 | -5.0 |
| 1982 | 617.8 | 474.3 | 143.5 | 745.8 | 594.4 | 151.4 | -128.0 | -120.1 | -7.9 |
| 1983 | 600.6 | 453.2 | 147.3 | 808.4 | 661.3 | 147.1 | -207.8 | -208.0 | 0.2 |
| 1984 | 666.5 | 500.4 | 166.1 | 851.9 | 686.1 | 165.8 | -185.4 | -185.7 | 0.3 |
| 1985 | 734.1 | 547.9 | 186.2 | 946.4 | 769.6 | 176.8 | -212.3 | -221.7 | 9.4 |
| 1986 | 769.2 | 569.0 | 200.2 | 990.5 | 807.0 | 183.5 | -221.2 | -238.0 | 16.7 |
| 1987 | 854.4 | 641.0 | 213.4 | 1,004.1 | 810.3 | 193.8 | -149.8 | -169.3 | 19.6 |
| 1988 | 909.3 | 667.8 | 241.5 | 1,064.5 | 861.8 | 202.7 | -155.2 | -194.0 | 38.8 |
| 1989 | 991.2 | 727.5 | 263.7 | 1,143.7 | 932.8 | 210.9 | -152.5 | -205.2 | 52.8 |
| 1990 | 1,032.0 | 750.3 | 281.7 | 1,253.2 | 1,028.1 | 225.1 | -221.2 | -277.8 | 56.6 |
| 1991 | 1,055.0 | 761.2 | 293.9 | 1,324.4 | 1,082.7 | 241.7 | -269.4 | -321.6 | 52.2 |
| 1992 | 1,091.3 | 788.9 | 302.4 | 1,381.7 | 1,129.3 | 252.3 | -290.4 | -340.5 | 50.1 |
| 1993 | 1,154.4 | 842.5 | 311.9 | 1,409.5 | 1,142.9 | 266.6 | -255.1 | -300.5 | 45.3 |
| 1994 | 1,258.6 | 923.6 | 335.0 | 1,461.9 | 1,182.5 | 279.4 | -203.3 | -258.9 | 55.7 |
| 1995 | 1,351.8 | 1,000.8 | 351.1 | 1,515.8 | 1,227.2 | 288.7 | -164.0 | -226.4 | 62.4 |
| 1996 | 1,453.1 | 1,085.6 | 367.5 | 1,560.6 | 1,259.7 | 300.9 | -107.5 | -174.1 | 66.6 |
| 1997 | 1,579.3 | 1,187.3 | 392.0 | 1,601.3 | 1,290.7 | 310.6 | -22.0 | -103.4 | 81.4 |
| 1998 | 1,721.8 | 1,306.0 | 415.8 | 1,652.6 | 1,336.0 | 316.6 | 69.2 | -30.0 | 99.2 |
| 1999 | 1,827.5 | 1,383.0 | 444.5 | 1,703.0 | 1,382.3 | 320.8 | 124.4 | 0.7 | 123.7 |
| 2000 | 2,025.2 | 1,544.6 | 480.6 | 1,788.8 | 1,458.1 | 330.8 | 236.4 | 86.6 | 149.8 |
| 2001 estimate | 2,136.9 | 1,633.1 | 503.9 | 1,856.2 | 1,508.5 | 347.7 | 280.7 | 124.6 | 156.1 |
| 2002 estimate | 2,191.7 | 1,660.8 | 530.9 | 1,960.6 | 1,601.4 | 359.2 | 231.2 | 59.4 | 171.8 |
| 2003 estimate | 2,258.2 | 1,697.4 | 560.8 | 2,016.2 | 1,648.7 | 367.6 | 242.0 | 48.8 | 193.2 |
| 2004 estimate | 2,338.8 | 1,748.5 | 590.3 | 2,076.7 | 1,697.0 | 379.7 | 262.1 | 51.6 | 210.5 |
| 2005 estimate | 2,437.8 | 1,808.8 | 629.0 | 2,168.7 | 1,776.4 | 392.4 | 269.0 | 32.4 | 236.6 |
| 2006 estimate | 2,528.7 | 1,870.2 | 658.5 | 2,223.9 | 1,817.8 | 406.1 | 304.8 | 52.4 | 252.4 |
| 2007 estimate | 2,643.3 | 1,950.0 | 693.3 | 2,303.4 | 1,880.5 | 422.9 | 339.9 | 69.5 | 270.4 |
| 2008 estimate | 2,770.6 | 2,044.4 | 726.2 | 2,397.9 | 1,959.2 | 438.7 | 372.7 | 85.2 | 287.5 |
| 2009 estimate | 2,909.9 | 2,148.9 | 761.0 | 2,490.3 | 2,032.2 | 458.1 | 419.6 | 116.7 | 302.9 |
| 2010 estimate | 3,058.4 | 2,254.9 | 803.5 | 2,593.5 | 2,113.2 | 480.3 | 465.0 | 141.7 | 323.3 |
| 2011 estimate | 3,232.6 | 2,386.3 | 846.3 | 2,706.3 | 2,202.7 | 503.7 | 526.2 | 183.6 | 342.6 |

¹ Off-budget transactions consist of the social security trust funds for all years and the Postal Service fund as of 1989.

² The actual amount of annual debt retirement will vary depending on the availability of eligible redeemable debt, and the use, if any, of the contingency reserve.

accounts when the Federal Government makes a direct loan or guarantees a private loan. The complete cash transactions with the public—the disbursement and repayment of loans, the payment of default claims on guarantees, the collection of interest and fees, and so forth—are recorded in separate financing accounts. The transactions of the financing accounts are not costs to the Government except for those costs that are already included in the credit program accounts. Therefore, they are non-budgetary in concept, and the Act excludes them from the budget. ¹ Because the financing accounts are non-budgetary in concept, they are not classified as off-budget Federal entities.

The budget outlays of credit programs thus reflect only the cost of Government credit decisions, and they reflect this cost when the Federal credit assistance is provided. This enables the budget to fulfill better its

purpose of being a financial plan for allocating resources among alternative uses: comparing the cost of a program with its benefits, comparing the cost of credit programs with the cost of other spending programs, and comparing the cost of one type of credit assistance with the cost of another type. Because the financing accounts do affect the Government's cash position, they change the amount of the Government's debt repayment or borrowing requirement as explained in chapter 12 of this volume, "Federal Borrowing and Debt." ²

² For more explanation of the budget concepts for direct loans and loan guarantees, see the section on Federal credit in chapter 24 of this volume, "Budget System and Concepts and Glossary." The structure of credit reform is further explained in chapter VIII.A of the *Budget, Fiscal Year 1992*, Part Two, pp. 223-26. The implementation of credit reform through 1995 is reviewed in chapter 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1997*, pp. 142-44. Refinements and simplifications enacted by the Balanced Budget Act of 1997 or provided by later OMB guidance are explained briefly in chapter 8, "Underwriting Federal Credit and Insurance," *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1999*, p. 170.

¹ See sec. 505(b).

Credit programs are discussed in chapter 8 of this volume, "Federal Credit and Insurance."

Premiums and discounts on debt buybacks.—The Treasury Department is buying back outstanding bonds as part of its efforts to manage the reduction of the publicly held debt. The premiums on debt buybacks are recorded outside the budget totals as a "financing other than the change in debt held by the public." The concept is explained in a section of chapter 24, "Budget System and Concepts and Glossary." Buyback premiums are discussed further in chapter 12 of this volume, "Federal Borrowing and Debt," and their actual or estimated amounts are shown for 2000 and 2001.

Deposit funds.—Deposit funds are non-budgetary accounts that record amounts held by the Government temporarily until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States). The largest deposit fund is the Thrift Savings Fund, which holds stocks and bonds for Federal employees who participate in the Thrift Savings Plan, a defined contribution retirement plan. Because these assets are the property of the employees and are held by the Government in a fiduciary capacity, the transactions of the fund are not transactions of the Government itself and therefore are non-budgetary in concept. The administrative costs and the transactions of budgetary accounts with the fund are included in the budget.

Beginning in 2000, the Federal budget excludes funds that are owned by Indian tribes and held and managed by the Government in a fiduciary capacity on the tribes' behalf. The transactions of these funds are not transactions of the Government itself and are non-budgetary in concept, like the transactions of the Thrift Savings Fund. Reclassification does not affect the ownership of the fund assets, the legal obligations of the Secretary of the Interior, or the Federal management of the funds as prescribed by law. The change in classification is discussed in chapter 15, "Trust Funds and Federal Funds," in *Analytical Perspectives* for the fiscal year 2000 budget. Deposit funds as such are further discussed in a section of chapter 24 of this volume, "Budget System and Concepts and Glossary."

Taxation and tax expenditures.—Taxation provides the Government with income, which is included in the budget as "receipts," and which withdraws purchasing power from the private sector to finance Government expenditure. In addition to this primary effect, taxation has important effects on the allocation of resources among private uses and the distribution of in-

come among individuals. These effects are caused by the composition of the Federal tax system, and by the rates and other structural characteristics of each Federal tax. These last effects of taxation on resource allocation and income distribution are analogous to the effects of outlays, but they are not recorded as outlays nor are they measured by receipts.

Some of these last effects, but not all, arise from revenue losses caused by special exclusions, exemptions, deductions, and similar provisions as identified by comparison of the tax law with a baseline. Revenue losses caused by these special provisions are defined as "tax expenditures" and are discussed in chapter 5 of this volume, "Tax Expenditures." Tax expenditures are also discussed in the individual chapters of Section III of the Budget, "Creating a Better Government," in conjunction with the outlays that serve the same major purposes.

Government-sponsored enterprises.—The Federal Government has established a number of Government-sponsored enterprises, such as the Federal National Mortgage Association and the Farm Credit Banks, to provide financial intermediation for specified public purposes. They are excluded from the budget because they are privately owned and controlled. However, primarily because they were established by the Federal Government for public-policy purposes, estimates of their activities are reported in a separate chapter of the budget Appendix, their activities are analyzed in chapter 8 of this volume, "Credit and Insurance," and their lending and borrowing are summarized in tables 8–11 and 8–12 of that chapter.

Regulation.—Some types of regulation have economic effects that are similar to budget outlays by requiring the private sector to make expenditures for specified purposes, such as safety and pollution control. The regulatory planning process is described annually in *The Regulatory Plan and the Unified Agenda of Federal Regulatory and Deregulatory Actions*.³

In the fall of 1997 the Office of Management and Budget published a report on the costs and benefits of Federal regulation. That report discussed the development of the regulatory system and regulatory analysis, estimated the total annual costs and benefits of Federal regulatory programs, estimated the costs and benefits of recent major rules, and recommended ways to improve regulatory programs. It has been updated twice, the last time in 2000,⁴ and it is required by statute to be issued annually starting in 2002.

³The most recent publication was issued by the Regulatory Information Service Center in October 2000 and printed in the *Federal Register* of November 30, 2000.

⁴Office of Information and Regulatory Affairs, Office of Management and Budget, *Report to Congress on the Costs and Benefits of Federal Regulation* (2000).